

If the West fiddles, China will blaze ahead

Indulging consumers is no longer enough. Growth must come from tackling the world's long-term energy needs

Anatole Kaletsky



We are shaping the economy of the future by promoting a pro-growth agenda," said

George Osborne in a speech to the City of London yesterday.

From a Chancellor presiding over what is now one of the weakest economies in the leading industrial countries — and one that is likely to get even weaker because of the Government's budgetary policies — this was a bold claim. Coming the day after China officially overtook Japan as the world's second biggest economy, Mr Osborne's statement was bold to the point of self-delusion. The economy of the future will not be shaped in Britain, nor even in Europe as a whole or in America. And it will definitely not be shaped by the Government's agenda of cutbacks in higher education and culture, in scientific research and in energy and infrastructure investment.

The economy of the future will obviously be shaped in China and other developing countries — not in the sense that the citizens of these countries will become better off than Americans, Europeans or Japanese, at

least within any of our lifetimes, but in the sense that most of the growth and innovation in the world economy will depend on meeting the physical needs of Asia, Latin America and Africa, rather than the consumer desires of Britain, Europe or the US.

In decades past, most international businesses have catered first and foremost to American and European consumers; developing countries have been a mere afterthought. Today, such calculations have to be turned upside down for at least three reasons.

The first is the financial crisis, which has brought to an end, at least for the time being, the three decades of unfettered borrowing and consumerism that started in the 1980s with the Reagan-Thatcher economic revolution. Businesses such as house

Car and house sales may never recover to pre-crisis levels

building, advertising and consumer banking, which have prospered for 30 years by serving free-spending consumers and homeowners with access to easy credit, now face stagnant markets.

As a result, entire regional economies — ranging from the Mediterranean countries to Florida, California and Nevada — must now reinvent themselves or sink into oblivion. Whether this also applies to Britain, because of its dependence on

financial services, remains to be seen. What is certain is that consumers in countries such as China, India, Brazil and Indonesia have been far less affected by the financial crisis. In fact, consumer credit and mortgage markets in these countries are only just beginning to develop, creating the conditions for powerful growth in consumer demand.

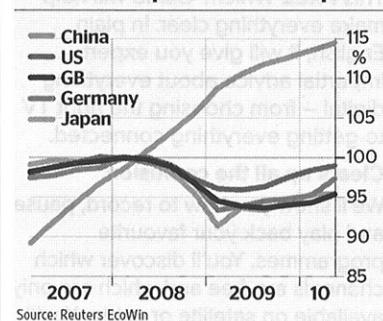
The second reason for the reversal of fortunes is the ageing of the postwar baby boomers in the US, Europe and Japan. Those born after the Second World War will start hitting 65 from next year onwards. The swelling ranks of retirees will spend their money very differently from their youthful past. As a result, the markets for big consumer goods, such as cars, appliances and even houses, may never recover to the levels they enjoyed before the financial crisis. Instead, pensioners will spend their savings on medicines, nursing care and other services. This pattern is already clearly visible in Japan, Italy and Germany.

In the developing countries, postwar demographic patterns have been very different, driven mainly by reductions in infant mortality from the late 1950s onwards. Populations are therefore still growing rapidly and even where the total numbers are reaching a plateau, as in China, the ranks of young and middle-aged consumers will continue expanding.

The third difference between advanced and developing economies — less obvious but even more important in the long run — lies in their exposure to environmental

damage, energy and water shortages, and climate change. Europe, America and Japan may be rich enough to adapt to climate change, to pay ever higher prices for dwindling oil reserves and export their environmental problems by shifting polluting industries to poorer countries.

GDP since pre-recession peak



But developing countries will not be able to dodge the environmental constraints so easily. They are either too poor, like most African countries, or simply too large, like China, India and Brazil. If these countries ever reach living standards remotely approaching those of today's developed countries, they will create demand for food, energy and water so vast that other parts of the world will not be able to meet them in the long term.

This will give developing countries an overwhelming incentive to invest in new technologies. To do this, they will have to undertake investments on an almost inconceivable scale. Already

China is building as many old-energy power stations every two years as Britain has constructed since the harnessing of electricity in the 18th century. This mind-boggling comparison hints at the boom in building greener infrastructure that must lie ahead.

The most important economic question for the coming decades will be which industries, companies and countries will dominate the development of new technologies for energy and food production, water purification and transport. The nations that prosper in a world economy driven by the needs of the developing countries will be those that invest in scientific research and higher education. China will clearly be one of these nations.

But this also presents a great opportunity for Britain, America and Europe, if they can switch their attention from the passing whims of their own consumers to addressing the long-term needs of the world. If they hesitate too long, China will emerge as the leader in the next great wave of technological innovation and the West's global hegemony really will be over.

You, the editor

What do you think of today's Times? Send your 250-word review by 3pm to thetimes.co.uk/opinion